

[REDACTED]
[REDACTED]
[REDACTED]
MAR 12 1982

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The information submitted discloses that you were incorporated under the nonprofit corporation laws of the State of [REDACTED] on [REDACTED].

The club was formed to develop, operate, and care for community facilities for the benefit of its members; to maintain roadways; to collect and dispose of street garbage; to provide fire and police protection for the area; to maintain grass plots, trees and plantings within the streets; and to enforce liens, restrictions, and covenants for the benefit of real property over which the corporation has jurisdiction and to which the corporation has the legal right to enforce the same.

Membership is limited to all persons who purchase property in the specified divisions of [REDACTED] and [REDACTED]. Information received shows that of the [REDACTED] members in [REDACTED], [REDACTED] were permanent residents. The balance of the members use their property for recreational purposes such as camping, club facilities, and social events. There are [REDACTED] divisions of which one is for mobile homes. Protective covenants for the mobile home division are [REDACTED]. The club is supported by dues and fund raising projects for members and their guests.

Information received also indicates there are many social events and [REDACTED] during the year plus regular newsletters. Club facilities are [REDACTED] used by members who have a currently paid up membership card. Club facilities include beaches, tennis court, basketball court, [REDACTED] field, playground equipment, swimming area, clubhouse and [REDACTED].

Section 501(c) of the Internal Revenue Code of 1934 describes certain organizations exempt from income tax under section 501(a) and reads, in part, as follows:

"(7) Clubs organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder."

Revenue Ruling 69-281, 1969-1 C.B. 155 provides for a club whose membership is limited to homeowners in a housing development that provides recreational facilities for fellowship and commingling. Although the club was incorporated by a housing developer, it is not controlled by him nor operated as a commercial venture for his benefit.

Revenue Ruling 75-494, 1975-2, C.B. 214 further provides for certain activities of a social club in a housing development. Among certain activities it states that the club will fail to qualify for exemption as a social club if it administers and enforces covenants for preserving the architecture and appearance of the housing development.

Accordingly, it is held that because your organization provides and enforces covenants for the mobile home and other residences in the [redacted] areas, including use of an architectural control committee, it is not operated exclusively for pleasure, recreation, and other nonprofitable purposes as required by Section 501(c)(7) of the Internal Revenue Code and Revenue Ruling 75-494. Therefore, you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. You are required to file Federal income tax returns on Form 1120.

If you accept our findings, you do not need to take further action.

If you do not accept our findings, we recommend that you request a conference with the Office of Regional Director of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Application 892. You will then be contacted to arrange a date for a conference. The conference may be held at our Regional office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days from the date of this letter, this ruling will become final. If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

[redacted]
Acting District Director

Enclosure